

# Inspector General

United States  
Department of Defense



Internal Controls Over the Completeness  
of the Air Force Military Equipment Baseline

# Report Documentation Page

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## Acronyms and Abbreviations

|         |   |
|---------|---|
| AFEMS   | Air Force Equipment Management System               |
| AMARG   | Aerospace Maintenance and Regeneration Group        |
| CAMS-ME | Capital Asset Management System-Military Equipment  |
| P&EPO   | Property and Equipment Policy Office                |
| PP&E    | Property, Plant, and Equipment                      |
| ROWS    | Remotely Operated Weapon System                     |
| SBSS    | Standard Base Supply System                         |
| SFFAS   | Statement of Federal Financial Accounting Standards |



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
400 ARMY NAVY DRIVE  
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January 6, 2009

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CHIEF  
FINANCIAL OFFICER  
ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL  
MANAGEMENT AND COMPTROLLER)

SUBJECT: Internal Controls Over the Completeness of the Air Force Military Equipment  
Baseline (Report No. D-2009-040)

We are providing this report for information and use. We considered management comments on a draft of the report in preparing the final report.

Comments on the draft of this report conformed to the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, we do not require any additional comments.

We appreciate the courtesies extended to the staff. Questions should be directed to me at (703) 601-5868. If you desire, we will provide a formal briefing on the results.

*Patricia A. Marsh*  
Patricia A. Marsh, CPA  
Assistant Inspector General  
Defense Business Operations





# Results in Brief: Internal Controls Over the Completeness of the Air Force Military Equipment Baseline

## What We Did

The Property and Equipment Policy Office (P&EPO) in the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics requested that the DoD Office of Inspector General perform procedures to review the military equipment baseline valuation as of September 30, 2006. Officials from both offices discussed and agreed upon objectives for the audit, which included evaluating the reliability of the internal controls over three of the financial statement assertions: valuation, rights and obligations, and completeness. This report is one in a series on DoD military equipment and the second in a series on the Air Force military equipment baseline valuation. Our prior report D-2008-074, "Internal Controls Over the Air Force Military Equipment Baseline Valuation Effort," discusses the valuation and rights and obligations assertions. This report addresses the completeness assertion for military equipment universe. The final report will summarize all findings for the series and recommend corrective actions, as appropriate.

## What We Found

The P&EPO and Air Force internal controls over the completeness of the universe of programs included in the Air Force military equipment baseline were not effective. Specifically, the internal controls did not ensure that:

- all Air Force military equipment assets and programs were included in the military equipment baseline;
- program waivers were appropriately granted and supported; and
- equipment previously reported as General Property, Plant, and Equipment

was excluded from the reported military equipment value.

## What We Recommend

We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller):

- include inactive aircraft held for potential reuse as military equipment in the military equipment value,
- include the value of RC-135 modifications in the military equipment value,
- obtain sufficient documentation to justify permanent waivers and retain it in the program files, and
- eliminate duplicate reporting of assets as both military equipment and general equipment.

## Client Comments and Our Response

The Assistant Secretary of the Air Force (Financial Management and Comptroller) agreed with the recommendations. The client comments were responsive to the recommendations. Please see the recommendations table on the back of this page.



**F-16 Aircraft Stored at the Aerospace Maintenance and Regeneration Group**

## Recommendations Table

| <b>Client</b>   | <b>Recommendations<br/>Requiring Comment</b> | <b>No Additional Comments<br/>Required</b> |
|---|--|--|
| Assistant Secretary of the Air<br>Force (Financial Management<br>and Comptroller) |  | 1.a., 1.b., 2., 3.a., and 3.b.             |

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# Introduction

## Objectives

Our overall objective was to evaluate the methodology used to develop the Air Force military equipment baseline valuation as of September 30, 2006. Specifically, we assessed the reliability of the Property and Equipment Policy Office (P&EPO) and the Air Force internal controls over the completeness of the universe of programs for the military equipment baseline. See Appendix A for a discussion of the scope and methodology and prior coverage. Appendix B contains a glossary of technical terms used in this report.

## Review of Internal Controls

We determined that material internal control weaknesses, as defined by DoD Instruction 5010.40, “Managers’ Internal Control (MIC) Program Procedures,” January 4, 2006, existed in the Air Force military equipment baseline valuation process. DoD Instruction 5010.40 states that internal controls are the organization, policies, and procedures that help program and financial managers achieve results and safeguard the integrity of their programs. Implementing Recommendations 1.a., 1.b., 2., 3.a., and 3.b. will improve the completeness of the military equipment universe. We will provide a copy of this report to the senior Air Force official responsible for internal controls in the Department of the Air Force.

## Background

The P&EPO requested that DoD Office of Inspector General perform procedures to review the military equipment baseline valuation dated September 30, 2006. Officials in the P&EPO and Office of Inspector General discussed and agreed upon objectives for the audit. The agreed-upon objectives included evaluating the reliability of the internal controls over three of the financial statement assertions: valuation, rights and obligations, and completeness of the Military Equipment Program universe. This report is one in a series on DoD military equipment and the second in a series on the Air Force military equipment baseline valuation. Our prior report D-2008-074, “Internal Controls Over the Air Force Military Equipment Baseline Valuation Effort,” discusses the valuation and rights and obligations assertions. This report addresses the completeness assertion for the Air Force Military Equipment Program universe.

Management assertions are representations by management about information in the financial statements. The assertions include: valuation or allocation, rights and obligations, existence or occurrence, completeness, and presentation and disclosure. The completeness assertion asserts that all military equipment owned by the Air Force is reported in the financial statements.

The Statement of Federal Financial Accounting Standards (SFFAS) No. 23, “Eliminating the Category National Defense Property, Plant, and Equipment,” was issued in May 2003 and was effective for periods after September 30, 2002. The Standard included guidance

for capitalizing the value of military equipment including the requirement that the initial capitalization amount for assets previously considered National Defense Property, Plant, and Equipment should be based on historical cost. The historical costs should be in accordance with the asset recognition provisions of SFFAS No. 6, "Accounting for Property, Plant, and Equipment," as amended, and should be the initial historical cost for the items, including any major improvements or modifications. Military equipment is defined as tangible items that are used in the performance of military missions, have a minimum cost of \$100,000 (\$50,000 for vehicles), are not intended for sale, and have an estimated useful life of 2 years or more.

DoD 7000.14-R, the "DoD Financial Management Regulation," volume 4, chapter 6, dated July 2006, provides that when acquiring a General Property, Plant, and Equipment asset, the purchase cost and other costs necessary to bring the asset to an operable condition are capitalized (capitalizing is recording and carrying forward expenditures for realization of benefits in future periods). DoD Regulation 7000.14-R also provides that depreciation expenses should be calculated and accumulated using the straight-line method, which is a calculation that takes the recorded cost (less salvage value) and divides it equally among accounting periods during the asset's useful life. Salvage value represents the residual value that could be obtained from selling the asset after it has been removed from service and is no longer used for its intended purpose. The event that triggers the calculation of depreciation is the date of receipt shown on the asset receiving document or the date the asset is installed and placed in service (regardless of whether it is actually used). For purposes of computing depreciation, military equipment and real property assets (for example, buildings, facilities, and structures) do not have salvage values.

On September 30, 2006, the Air Force reported in its financial statements that military equipment had a net book value of \$111.2 billion, which was 78 percent of the General Property, Plant, and Equipment (PP&E) and 41 percent of total assets reported. For financial reporting purposes, DoD is treating military equipment as a subset of General PP&E and reporting it separately. The primary difference between military equipment and the balance of General PP&E is that military equipment is generally procured for tactical or battlefield situations.

In January 2007, the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics issued a memorandum to clarify the definition of military equipment. The memorandum defined military equipment as:

Weapon systems that can be used directly by the Armed Forces to carry out battlefield missions. Military equipment has an expected useful life of two or more years; is not intended for sale in the ordinary course of business; does not ordinarily lose its identity or become a component part of another article; and is available for use of the reporting entity for its intended purpose.

## **Finding. Completeness of the Air Force Military Equipment Baseline**

The Property and Equipment Policy Office (P&EPO) and Air Force internal controls over the completeness of the universe of programs included in the Air Force military equipment baseline were not effective. Specifically, the internal controls did not ensure that:

- all Air Force military equipment assets and programs were included in the military equipment baseline,
- program waivers were appropriately granted and supported, and
- equipment previously reported as General Property, Plant, and Equipment (PP&E) was excluded from the reported military equipment value.

Until corrected, the deficiencies could cause the Air Force to materially misstate the value of military equipment disclosed in the financial statements.

### **The P&EPO Process to Establish the Universe of Air Force Military Equipment Programs**

To compile the Air Force military equipment baseline universe, the P&EPO reviewed military equipment reports provided in response to a congressional requirement, budget documents and supporting reports, selected acquisition reports, and the Government Accountability Office Defense acquisition assessment of major weapon program reports. After developing the initial list of programs, the P&EPO reviewed it with Air Force financial and program managers to identify any required adjustments. The P&EPO required the Air Force managers to provide supporting documentation for adjustments to the initial list.

The universe developed by the P&EPO included 404 Air Force programs. The P&EPO reviewed each program to determine whether it met the criteria for being classified as military equipment. The P&EPO granted a waiver<sup>1</sup> to the programs that did not meet the criteria for valuation. Based on P&EPO and Air Force review, the P&EPO excluded 279 of the 404 programs. The P&EPO capitalized the value for 125 programs and included values for the programs in the FY 2006 financial statements.

### **Inactive Aircraft Excluded from Baseline**

The P&EPO and Air Force did not report some inactive aircraft stored at the Aerospace Maintenance and Regeneration Group (AMARG) in the military equipment baseline because the P&EPO concluded that the aircraft stored at AMARG, Davis Monthan Air Force Base, Arizona, were not held in support of future operational requirements. As a

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<sup>1</sup> Programs that did not meet the criteria for valuation were granted temporary or permanent waivers.

result, the net book value of Air Force military equipment was understated by approximately \$451.9 million.

DoD 7000.14-R provides that:

General PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation/ amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value. Any difference in the book value of the PP&E and its expected net realizable value shall be recognized as a gain or a loss in the period of adjustment.

DoD 7000.14-R also provides that:

General PP&E assets that have been temporarily removed from service/use with the expectation that such assets eventually will be returned to service shall continue to be depreciated during periods of non-use. This policy is applicable to WCF [Working Capital Fund] activities and also applies to General PP&E sent to a depot for temporary storage.

Air Force aircraft are classified as either active or inactive. Active aircraft include primary and backup aircraft authorized for performance of the unit's mission and attrition reserve. Inactive aircraft include aircraft held for:

- future operational requirements;
- other requirements, such as conversion to target drone or ground training equipment;
- sale, lease, or loan under the Security Assistance Program; and
- parts reclamation.

The Air Force has 268 aircraft held in inviolate storage<sup>2</sup> that it should have reported as military equipment on September 30, 2006. The F-16, A-10, B-1, and C-9 aircraft were held in support of a potential Air Force operation requirement. In other words, the aircraft were temporarily removed from service with the expectation that the aircraft could be regenerated and returned to service as military equipment. For example, in February 2001, the Deputy Secretary of Defense directed that 200 F-16 aircraft be retained in inviolate storage as a hedge against unforeseen force structure risks. In addition, the Air Force retained 24 A-10 aircraft in inviolate storage to maintain the capability to regenerate aircraft in case of major combat losses and to maintain the required force structure until at least FY 2025.

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<sup>2</sup> Inactive aircraft placed in the inviolate storage category are stored intact in anticipation of specific future requirements in a manner that will provide maximum aircraft preservation.

The P&EPO and the Air Force included \$58.3 million related to 16 B-1 and C-9 aircraft stored at AMARG in the value of military equipment on September 30, 2006. However, the remaining 252 A-10, B-1, and F-16 aircraft were removed from the valuation when the aircraft were reassigned to AMARG. We estimate that the net book value of military equipment reported in the FY 2006 financial statements was understated by \$451.9 million<sup>3</sup> because the aircraft were not reported.

Appendix C, “Other Matters of Interest,” discusses financial reporting of 943 aircraft in excess of Air Force military equipment requirements. This includes 124 aircraft leased or held for sale to foreign governments and 819 aircraft held for either parts reclamation in support of the active Air Force fleet or conversion to target drones.

## **Other Military Equipment Programs Excluded**

To determine whether the P&EPO identified and included all equipment programs in its initial analysis, we reviewed the budget documents and supporting reports and exhibits for the Air Force Aircraft, Missile, and Other Procurement Appropriations for FY 2004, FY 2005, and FY 2006. The P&EPO and Air Force execution of the baseline process erroneously excluded the value of the RC-135 aircraft modification program from the value of military equipment reported on September 30, 2006. In addition, the Air Force did not document justifications for excluding the HH-60 and MH-53 Helicopter Programs in the P&EPO files.

Our review indicated that the RC-135 aircraft modification program should have been included in the value of military equipment. The P&EPO initially included the RC-135 aircraft in the listing of programs to be reviewed. The P&EPO determined that the RC-135 aircraft was fully depreciated and waived the aircraft acquisition program from the baseline value in accordance with implementing guidance in the Statement of Federal Financial Accounting Standards (SFFAS) No. 6. However, the P&EPO also excluded modifications to the RC-135 aircraft from the baseline. Modifications to the RC-135 aircraft were extensive. Between FY 1997 and FY 2006, the Air Force received over \$1.4 billion for modification to the RC-135 aircraft.

We also reviewed two programs for which the Air Force received aircraft modification funding that were neither valued in the military equipment baseline nor included in the P&EPO list of waived programs. Our review concluded that the P&EPO should have established files for waiving the programs. The P&EPO excluded the HH-60 and MH-53 Helicopter Programs from the Air Force military equipment baseline but did not document why the programs were excluded. The P&EPO excluded the programs from the Air Force military equipment baseline and included them in the Special Operations Command baseline based on the preponderance-of-use policy. We confirmed that on September 30, 2006, the P&EPO reported the programs in the Special Operations Command baseline. Accordingly, the P&EPO should have assigned “entity” waivers to the programs and documented the waivers in the waiver files.

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<sup>3</sup> The \$451.9 million does not include any modification costs related to the aircraft.

## Military Equipment Program Waivers

We reviewed a judgmental sample of 82 programs that were waived or excluded from the Air Force military equipment baseline to determine whether the documentation supporting and justifying the waiver was complete and whether the waiver was appropriate. In most cases, we concluded that the waivers were justified. However, the P&EPO and the Air Force program managers provided documentation that was often incomplete. In addition, Air Force program managers did not always report program changes to the P&EPO when changes occurred after waivers were granted. As a result, the Air Force inappropriately valued or waived programs.

Initially, based on information in the P&EPO files, we were not able to determine whether the P&EPO and the Air Force waivers for 44 of the 82 programs reviewed were properly granted. The files did not contain sufficient supporting documentation. To determine whether the program waivers were appropriate, we contacted Air Force program managers, queried Air Force inventory and equipment systems, and reviewed current budget-item justification reports.

See Table 1 for our review of military equipment program waivers.

**Table 1. Review of Military Equipment Program Waivers**

| Waiver Type  | Waivers Reviewed | Insufficient Documentation |
|--------------|------------------|----------------------------|
| Deactivated  | 13               | 7                          |
| Entity       | 7                | 6                          |
| Life         | 4                | 2                          |
| Other        | 29               | 23                         |
| Price        | 12               | 0                          |
| Software     | 3                | 3                          |
| Temporary    | 14               | 3                          |
| <b>Total</b> | <b>82</b>        | <b>44</b>                  |

### **Documentation**

We found examples of incomplete documentation in most waiver categories. For example, the P&EPO assigned “Other” waivers to 29 of the programs we reviewed. For 22 of the 29 programs, the program was waived because the program assets were recorded in the Air Force Equipment Management System (AFEMS). However, the P&EPO files did not contain reports from AFEMS documenting that the assets were recorded in AFEMS. Air Force Materiel Command personnel provided inventory reports substantiating that the equipment was recorded in AFEMS.

In another example, the P&EPO assigned a “life” waiver to two munitions programs because the munitions items were recorded in the Combat Ammunition System. The

P&EPO assigned the waivers without obtaining documentation that confirmed that the individual munitions were captured and reported in the Combat Ammunition System and reported as operating material and supplies. Air Force, Deputy Chief of Staff, Installations and Logistics personnel identified the National Stock Number assigned to the individual munitions items and provided inventory reports substantiating that the munitions were recorded and reported as operating material and supplies.

The P&EPO assigned an “entity” waiver to seven programs because the program expenditures were to be reported under another weapon system. However, for 6 of the 7 programs, the P&EPO did not document that the costs were captured and reported under the other weapon system. For example, the P&EPO assigned the Joint Helmet-Mounted Cueing System Program an “entity” waiver without documenting that the program expenditures were captured under the primary weapon system programs (F-15, F-16, and F-18). F-16 program office personnel provided accounting reports substantiating that the expenditures for the Joint Helmet-Mounted Cueing System were captured under the F-16 Program and that an “entity” waiver was appropriate.

Inadequate supporting documentation for the waivers can impact the auditor’s ability to complete the audit in a reasonable time and jeopardize the auditor’s ability to render an audit opinion.

### ***Program Changes***

Air Force program managers did not always report program changes to the P&EPO when changes occurred after waivers were granted. For example, the P&EPO and Air Force granted an “other” waiver to the Haystack Ultra-high resolution Satellite Imaging Radar because the system was not owned by the Air Force. During the 1970s, the Air Force originally transferred the Haystack radar to the Massachusetts Institute of Technology. The Air Force did not own the radar when the P&EPO completed the initial review of the program. The Massachusetts Institute of Technology owned the radar. Accordingly, the P&EPO assigned an “other” waiver to the program. However, in June 2005, the Massachusetts Institute of Technology transferred ownership of the Haystack radar back to the Air Force so the Air Force could upgrade the system. The Air Force program office should have notified the P&EPO of the change of ownership.

Following completion of the upgrade in FY 2010, the Air Force will be the owner and principal user of the radar system. If the program should be classified as military equipment, the Air Force should work with the P&EPO to assign a “temporary” waiver to the program, capture the costs to upgrade the radar in the Work-in-Process account, and capitalize the equipment when initial operational capability is attained.

In another case, the P&EPO did not assign a “temporary” waiver to the acquisition program for the Remotely Operated Weapon System (ROWS). Instead, the P&EPO retained all program expenditures in the Work-in-Process account. Unreported program changes caused information in the P&EPO files to be inaccurate and the Work-in-Process account balance to be overstated.

Specifically, in early FY 2004, the P&EPO classified the acquisition program as military equipment and obtained expenditure information for the program. At that time the Electronic Systems Center was to develop and field two ROWS at Kirtland Air Force Base, New Mexico. As of September 30, 2006, the P&EPO included the estimated program costs of the program, \$1,826,800, in the Work-in-Process account. In January 2005, the systems at Kirtland Air Force Base failed operational testing. The Electronic Systems Center did not report the condemnation of the systems to the P&EPO. Components of the systems have been reutilized or disposed. The costs reported as Work-in-Process in the FY 2006 financial statements should have been expensed when the systems failed operational testing.

In addition, the Electronic Systems Center was fielding ROWS at Whiteman Air Force Base, Missouri, and the Electronic Systems Center had an ongoing program for developing and fielding additional systems. If ROWS should be classified as military equipment, the Air Force should work with the P&EPO to assign a “temporary” waiver to the program, capture costs to construct and install the system in the Work-in-Process account, and capitalize the system when assets are fielded.

## **Duplicate Reporting of PP&E**

The P&EPO process to identify military equipment resulted in reporting some assets as both military equipment and general equipment. As previously discussed, the P&EPO assigned waivers to programs because the program assets were recorded in AFEMS. However, execution of the baseline process did not exclude all programs that should have been waived for this reason.

SFFAS No. 23 rescinded the term “National Defense PP&E” and directed that all items previously considered National Defense PP&E be classified as General PP&E. Prior to the issuance of SFFAS No. 23, the Air Force maintained accountability for many assets acquired with the Other Procurement, Air Force Appropriation using AFEMS and reported the assets as general equipment. The Air Force did not classify the assets as National Defense PP&E. Of the 125 programs included in the military equipment baseline, at least 32, with a net book value of \$1.8 billion, were funded by the Other Procurement, Air Force Appropriation.

Our review indicated that the P&EPO reported assets as military equipment in the Capital Asset Management System-Military Equipment (CAMS-ME) and the Air Force reported them as General PP&E. For example, the P&EPO recorded the ground control stations for the Space-Based Infrared System and the Defense Support Program in CAMS-ME and reported the value of ground control equipment as military equipment. The P&EPO did not record and account for individual equipment items separately in CAMS-ME. Instead, the P&EPO recorded and depreciated the program equipment using the Group and Composite Methodology. The Air Force organization in possession of the equipment recorded and accounted for each equipment item separately in AFEMS. AFEMS accumulated the value of the equipment that met the criteria for financial reporting and reported the equipment as General PP&E. We estimated that the P&EPO included equipment valued at \$69.2 million in the value of military equipment that the Air Force

also reported as General PP&E. The duplication occurred because P&EPO and the Air Force did not exercise control to ensure that the equipment classified and reported as military equipment were not also recorded and reported as General PP&E.

For other programs, the P&EPO assigned program waivers without addressing whether the existing equipment was recorded in AFEMS or the Standard Base Supply System (SBSS). As a result, temporary waivers assigned to several equipment programs could result in duplicate reporting as General PP&E and military equipment in the future. For example, in FY 2004, the P&EPO classified the Service Life Extension Program for the AN/FPS-85 Radar System as military equipment and assigned a “temporary” waiver to the program because initial operational capability for the upgraded system was not to be reached until FY 2008. However, our review indicated that the existing AN/FPS-85 Radar System was recorded in AFEMS. The P&EPO files did not address the existing radar system. Recording the service life extension of the AN/FPS-85 Radar System in CAMS-ME while the original equipment is recorded in AFEMS demonstrates a lack of consistency in reporting. In addition, the dual classification could cause equipment to be recorded in both CAMS-ME and AFEMS when the upgrade is completed.

In another example, the P&EPO assigned a “temporary” waiver to the cryptographic modernization program. The program provided procurement of upgrades and replacements for cryptographic assets to provide state-of-the-art technologies. The P&EPO concluded that the cryptographic assets were military equipment. The “temporary” waiver was assigned because the assets that were upgraded or replaced were not in service on September 30, 2006. However, the P&EPO did not obtain information related to the existing cryptographic equipment to determine whether the assets should be capitalized. Our review indicated that the cryptographic assets were recorded in SBSS and reported as inventory. Again, this could result in duplicate reporting of the assets.

The P&EPO and the Air Force need to establish controls to ensure that equipment; such as the radar system, ground control stations, and communication equipment; are recorded in AFEMS, SBSS, or CAMS-ME depending on whether the equipment meets the definition of military equipment.

## **Client Comments on the Finding and Our Response**

Although not required to comment, the Director, Acquisition Resources and Analysis, Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics provided the following comments on the finding. For the full text of the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics comments, see the Client Comments Section.

### ***Under Secretary of Defense for Acquisition, Technology, and Logistics Comments***

The Director did not agree with the audit recommendation to include inactive aircraft stored in inviolate storage for potential future use as military equipment in the value of

Air Force military equipment. The Director indicated that:

- SFFAS No. 6, paragraph 38, requires agencies to remove the General PP&E book value from the asset account in the period of asset disposal, retirement, or removal from service;
- the DoD 7000.14-R requires agencies to remove PP&E values from General PP&E accounts, along with associated accumulated depreciation/amortization, if prior to disposal, retirement, or removal from service, assets no longer provide service in the operations of the entity;
- Air Force program managers did not provide documentation or indicate that the Air Force had a specific plan to return these assets to service; and
- assets brought back into the active inventory would require extensive modifications to bring them up to the same level of flight-worthiness as their sister aircraft.

**Our Response.** We believe that the pertinent issue is whether the inactive aircraft stored at AMARG have been retired or removed from service. Although we agree that these aircraft are inactive and that the cost to regenerate and modify the aircraft may be extensive, we disagree that the aircraft have been retired. The inactive aircraft were retained for potential use as military equipment at the direction of the Deputy Secretary of Defense. In February 2001, the Deputy Secretary of Defense directed that 200 F-16 aircraft be retained in inviolate storage as a hedge against unforeseen force structure risks. In addition, the Air Force retained 24 A-10 aircraft in inviolate storage to maintain the capability to regenerate aircraft in case of major combat losses and to maintain the required force structure until at least FY 2025.

The Air Force maintained the aircraft in inviolate storage. Aircraft in this category were prepared for storage in a manner that provided maximum aircraft preservation. Parts (including engines) were not to be removed without approval of the Headquarters, United States Air Force.

Concerning assets removed from service that may be returned to service, the DoD 7000.14-R states that:

General PP&E assets that have been temporarily removed from service/use with the expectation that such assets eventually will be returned to service shall continue to be depreciated during periods of non-use. This policy is applicable to WCF [Working Capital Fund] activities and also applies to General PP&E sent to a depot for temporary storage.

In our opinion, the aircraft retained in inviolate storage were inactive and not retired. As such, we believe the aircraft should continue to be reported in the value of military equipment.

## **Recommendations, Client Comments, and Our Response**

**1. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller) work with the Property and Equipment Policy Office to:**

**a. include inactive aircraft stored in inviolate storage for potential future use as military equipment in the value of Air Force military equipment.**

**Air Force Comments.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) agreed and has modified its Reliability and Maintainability Information System. On October 1, 2008, the Air Force migrated from CAMS-ME to the Reliability and Maintainability Information System; and therefore this requirement will be satisfied in all future Air Force financial statements.

**Our Response.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) comments are responsive and meet the intent of the recommendation.

**b. include the acquisition cost of the RC-135 modification program in the value of Air Force military equipment.**

**Air Force Comments.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) agreed and has added the RC-135 modification program to its list of Air Force weapon systems whose gross book values (aerospace vehicle and/or its modifications) are being reevaluated. The estimated completion date is September 30, 2009.

**Our Response.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) comments are responsive and meet the intent of the recommendation.

**2. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller); with assistance from the Assistant Secretary of the Air Force, Acquisition and the Deputy Chief of Staff Installations and Logistics; obtain documentation from the equipment program managers to support permanent waivers assigned to the acquisition program.**

**Air Force Comments.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) agreed and is currently evaluating programs on a case-by-case basis to determine whether they qualify to be an equipment program. The Air Force is ensuring that the programs are properly documented and recorded in the appropriate Air Force legacy “financial feeder” system. The estimated completion date is September 30, 2009.

**Our Response.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) comments are responsive and meet the intent of the recommendation.

**3. We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller); with assistance from the Assistant Secretary of the Air Force, Acquisition and the Deputy Chief of Staff Installations and Logistics; identify acquisition programs funded by the Other Procurement, Air Force Appropriation and:**

**a. determine whether equipment purchased for the program was recorded in both the Capital Asset Management System-Military Equipment and the Air Force Equipment Management System.**

**b. determine whether the equipment should be classified as military equipment or general equipment and report it appropriately.**

**Air Force Comments.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) agreed with the recommendation. In July through September 2008, the Assistant Secretary of the Air Force, Acquisition had each program office with assets reported in CAMS-ME confirm which Air Force system maintained that program's asset accountability. On October 1, 2008, the Air Force migrated from CAMS-ME to the Reliability and Maintainability Information System so all future financial reports will eliminate duplicate reporting. In addition, the Deputy Assistant Secretary of the Air Force (Financial Operations) provided an adjustment to CAMS-ME value on September 30, 2008, to reflect the dollar values of the duplicate entries that needed to be eliminated. The Air Force is also currently implementing Enterprise Resource Planning for its Expeditionary Combat Support System. To prepare for this implementation, the Air Force has restricted the level of information system upgrades allowed in its legacy's system. As a result, each Air Force legacy "financial feeder" system determines the type of equipment reported.

**Our Response.** The Assistant Secretary of the Air Force (Financial Management and Comptroller) comments are responsive and meet the intent of the recommendation.

## **Appendix A. Scope and Methodology**

We conducted this financial-related audit from February 2008 through August 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Use of Computer-Processed Data**

We relied on computer-processed data provided directly from the P&EPO and its support contractor, public accounting firm Klynveld, Peat, Marwick, and Goerdeler. In addition, computer-processed data were provided by the Air Force Materiel Command. The data were obtained from numerous DoD financial, acquisition, and logistics systems. These systems included AFEMS, CAMS-ME, the Combat Ammunition System, MAXIMO, the Reliability and Maintainability Information System, and SBSS. Specifically, we used the computer-processed data to determine whether the universe of military equipment programs was complete. We did not determine the reliability of the computer-processed data. Not evaluating the controls did not affect the results of the applications of the agreed-upon objectives.

### **Prior Coverage**

During the last 5 years, the Department of Defense Inspector General (DoD IG) and Air Force Audit Agency have issued four reports discussing the financial reporting of Air Force Military Equipment. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>. Air Force Audit Agency reports can be accessed at <http://www.affaa.hq.af.mil>.

#### ***DoD IG***

DoD IG Report No. D-2008-074, “Memorandum Report on Internal Controls Over the Air Force Military Equipment Baseline Valuation Effort,” April 1, 2008

DoD IG Report No. D-2005-114, “Report on Development of the DoD Baseline for Military Equipment,” September 30, 2005

DoD IG Report No. D-2005-112, “Report on the Review of the Development of the DoD Baseline for Military Equipment,” September 30, 2005

#### ***Air Force***

Air Force Audit Agency Report No. F2007-0009-FB3000, “Air Force Military Equipment Baseline Valuation,” May 29, 2007



## Appendix B. Glossary of Technical Terms

**AFEMS.** An integrated logistics system used to account for Air Force general equipment. The system accumulates and reports the value of General PP&E for the Air Force financial statements.

**Attrition Reserve.** Aircraft procured to replace anticipated losses of primary aerospace vehicle inventory because of peacetime accidents or wartime attrition.

**CAMS-ME.** CAMS-ME was developed to maintain and update the computed military equipment values.

**Group and Composite Methodology.** The Group and Composite Methodology was used when program data were not available at the end item level. The Group and Composite Methodology was applied in situations when: some of the assets being acquired under an appropriation line have a unit cost in excess of the capitalization threshold, costs cannot be directly associated with end items, and no single item was significant enough to serve as a surrogate for the entire program.

**MAXIMO.** An integrated software package used to track, control, and manage AMARG assets to meet all operational maintenance aspects.

**Preponderance-of-Use Policy.** The preponderance-of-use policy stipulates that the cost of real property or military equipment will be reflected on the financial statements of the reporting entity that is the preponderant user (for example, the organization that receives the benefit of and controls access to the property or military equipment).

**Reliability and Maintainability Information System.** The Reliability and Maintainability Information System is a central, common source of all unclassified maintenance and logistics information for certain Air Force weapon systems. The Air Force uses the system to provide aircraft quantity data to support financial reporting and budget development.

**Standard Base Supply System.** An automated logistics system used to account for supplies and equipment at the Air Force Base Level.

**Waiver.** Programs that did not meet the criteria for valuation were granted temporary or permanent waivers. The P&EPO granted temporary waivers to programs that were using research and development funding but were expected to receive procurement funding in

the future. Temporary waivers were to be reassessed annually. Permanent waivers included:

- classified waiver: classified programs were not valued;
- deactivated waiver: program end items were fully deactivated by June 30, 2006;
- entity waiver: end items produced will be reported by another entity because of funding or preponderance-of-use requirements;
- foreign military status waiver: assets intended for foreign military sales;
- life waiver: assets have a useful life of less than two years;
- net book value waiver: program is fully depreciated and the net book value is zero;
- other waiver: program is a study program; in perpetual research, development, test, and evaluation; or the end item is not considered military equipment;
- price waiver: assets do not meet the \$100,000 capitalization threshold for military equipment (\$50,000 for self-propelled vehicles);
- real property waiver: program is considered to be real property according to SFFAS No. 6; and
- software waiver: software integrated into weapons systems is capitalized as part of the cost of the related military equipment program. Internal use software is reported as General PP&E.

## **Appendix C. Other Matters of Interest**

This appendix discusses two issues requiring action that are not directly related to the completeness of the Air Force military equipment universe. The issues are (1) valuation and financial reporting of aircraft held for sale and aircraft leased to foreign governments and (2) valuation and financial reporting of aircraft held for conversion to target drones and for spare parts reclamation.

DoD 7000.14-R directed that:

General PP&E shall be removed from general PP&E accounts along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, it no longer provides service in the operations of the entity. This could be either because it has suffered damage, becomes obsolete in advance of expectations, or is identified as excess. It shall be recorded in an appropriate asset account at its expected net realizable value. Any difference in the book value of the PP&E and its expected net realizable value shall be recognized as a gain or a loss in the period of adjustment.

### **Valuation and Financial Reporting of Aircraft Held for Sale or Leased Under the Security Assistance Program**

The P&EPO and Air Force valuation and financial reporting of aircraft held for sale and aircraft leased to foreign countries did not comply with DoD 7000.14-R. The Air Force retained 75 aircraft in inviolate storage for potential sale or lease under the Security Assistance Program. In addition, the Air Force had leased 49 F-16 aircraft to foreign countries. These aircraft no longer met the criteria to be reported as military equipment because the aircraft were held for sale or leased to foreign governments. The aircraft no longer provide service in the operation of the Air Force. However, the aircraft were not reclassified to another asset account as required by DoD 7000.14R. The P&EPO and Air Force erroneously included \$12.9 million related to 9 of the 75 aircraft held for potential sale in the value of military equipment reported in the FY 2006 financial statements.

### **Valuation and Financial Reporting of Inactive Aircraft Held for Other Purposes**

The P&EPO and Air Force valuation and financial reporting of excess aerospace vehicles did not comply with DoD 7000.14-R. At September 30, 2006, the Air Force was storing 819 inactive aircraft at AMARG to either support the QF-4 drones or to provide spare parts in support of the remaining operational aircraft.

Of the 819 inactive aircraft, 80 F-4 aircraft were retained in inviolate storage to support the Air Force program to convert F-4 aircraft into the QF-4 drone, a remote-controlled aerial target. When converted, the QF-4 drones are reported as operating material and supplies, not military equipment. The F-4 aircraft were not reported as military equipment in the FY 2006 financial statements. However, the aircraft should have been reclassified to an appropriate asset account at the expected net realizable value.

The remaining 739 inactive aircraft were excess to Air Force military equipment requirements and were being held to provide spare parts support for the remaining operational aircraft. Again, these excess aircraft should have been removed from the General PP&E accounts and recorded in an appropriate asset account at the expected net realizable value. However, the Air Force did not reclassify the aircraft to another asset account, as required by DoD 7000.14R, and reported 102 of the 739 aircraft, with a net book value of \$152.8 million, as military equipment.

# Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics Comments



ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

## ACTION MEMO

FOR: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS

FROM: DEPUTY DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS  
(PROPERTY AND EQUIPMENT POLICY) *JLS 10/9/08*

SUBJECT: Department of Defense Office of Inspector General Draft Report, *Internal Controls Over the Completeness of the Air Force Military Equipment Baseline Valuation Effort*, Project No. D2007-D000FD-0207.001

- The DoD Inspector General (DoDIG) issued a draft report related to the completeness of the Air Force military equipment baseline valuation (see TAB B).
- The Air Force report was sent to AT&L, DoD Comptroller, and the Air Force. The recommendations in the report are directed to the Assistant Secretary of the Air Force (Financial Management and Comptroller). There are no recommendations to USD(AT&L). The comments on this report are due by October 22, 2008.
- In general, the findings in the Air Force report are accurate, and we concur with the recommendations concerning documentation being provided by the program management offices. However, several issues deal with implementation policies and with interpretations of accounting standards (e.g., disposals). All of those issues are before the Federal Accounting Standards Advisory Board for review. There was also concern about duplicate reporting of equipment as both general property, plant and equipment and as military equipment.
- Specific findings are highlighted, flagged, and numbered to correspond to the comments in the attachment to the memo at TAB B.

RECOMMENDATION: Sign the memo at TAB A.

COORDINATION: None

Prepared By: Harry Chelpon, 703-604-6350 ext. 101, Harry.Chelpon@osd.mil





ACQUISITION,  
TECHNOLOGY  
AND LOGISTICS

OFFICE OF THE UNDER SECRETARY OF DEFENSE  
3000 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3000

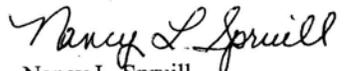
OCT 14 2008

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL AND DIRECTOR,  
DEFENSE FINANCIAL AUDITING SERVICE, DoDIG

SUBJECT: Department of Defense Office of Inspector General Draft Report, *Internal Controls Over the Completeness of the Air Force Military Equipment Baseline Valuation Effort*, Project No. D2007-D000FD-0207.001

Thank you for the opportunity to review this report. Although we were not specifically addressed in the recommendations, there are several issues that we believe should be revised so that the final report provides a more accurate representation of this effort. Attached are detailed comments addressing each one. I appreciate your consideration of these comments as you prepare your final report.

If you have any questions regarding these comments, please contact Mr. Harry Chelpon. He may be reached at 703-604-6350 x101 or at [Harry.Chelpon@osd.mil](mailto:Harry.Chelpon@osd.mil).

  
Nancy L. Spruill  
Director, Acquisition Resources  
and Analysis

Attachment:  
As stated

cc:  
Director, Accounting and Finance Policy, OUSD(C)  
Secretary of the Air Force (Financial Management)  
Secretary of the Air Force (Acquisition)



## COMMENTS

**1) Inactive Aircraft Excluded from Baseline** - The draft report states that the Property and Equipment Policy Office (P&EPO) and Air Force did not report some inactive aircraft stored at the Aerospace Maintenance and Regeneration Group (AMARG) in the military equipment baseline because the P&EPO concluded that the aircraft stored at AMARG, Davis Monthan Air Force Base, Arizona, were not held in support of future operational requirements. The report also recommends that these inactive aircraft be included in the baseline.

**ATL Response: Non-concur.** Statement of Federal Financial Accounting Standards (SFFAS) No. 6, paragraph 38, requires agencies to remove the general property, plant and equipment (PP&E) book value from the asset account in the period of asset disposal, retirement, or removal from service. The SFFAS 6 language makes the assumption that removal from service is permanent, which is the case with AMARG assets with rare exception for emergencies, such as the A-10 assets brought out for Operation Desert Storm.

The Department of Defense Office of the Inspector General (DoD IG) also notes that DoD 7000.14-R requires agencies to remove PP&E values from general PP&E accounts, along with associated accumulated depreciation/amortization, if prior to disposal, retirement or removal from service, assets no longer provide service in the operations of the entity. This could be because they have suffered damage, become obsolete in advance of expectations, or been identified as excess. The majority of AMARG assets fall into the category of identified as excess to current and known future requirements.

The final report should recognize that the Air Force program managers did not provide documentation or indicate that the Air Force had a specific plan to return these assets to service. In our opinion, the possibility that, at some point in the future, a currently unidentified requirement might arise that might require aircraft reactivation does not meet the persuasive evidence requirement justifying the continued reporting of these aircraft as current assets on the Air Force balance sheet. If the assets were brought back into the active inventory, we would require extensive modifications to bring them up to the same level of flight-worthiness as their sister aircraft. Those modifications would then be capitalized and the asset would return to an active status for depreciation purposes.

**2) Other Military Equipment Programs Excluded** – The draft report states that the P&EPO excluded modifications to the RC-135 aircraft from the baseline.

**AT&L Response: Concur.** The final report should recognize that the RC-135 modification program was valued during the initial valuation period (FY03 through FY06). From that point, expenditures were to be captured via Capital Asset Management System-Military Equipment (CAMS-ME) through the Financial Account Codes (FACs)

provided by the program office during the FY06 Update process. It appears that the FACs provided by the program office were inaccurate, as they have not captured any expenditures to date. The program office did attest to the accuracy of all of this data in FY2006, FY2007 and FY2008.

**3) Other Military Equipment Programs Excluded** – The draft report states that the P&EPO excluded the HH-60 and MH-53 Helicopter Programs from the Air Force military equipment baseline but did not document why the programs were excluded. The P&EPO excluded the programs from the Air Force military equipment baseline and included them in the Special Operations Command baseline based on the preponderance-of-use policy contained in the DoD Financial Management Regulations. The DoD IG confirmed that on September 30, 2006, the P&EPO reported the programs in the Special Operations Command baseline. Accordingly, the P&EPO should have assigned “entity” waivers to the programs and documented the waivers in the waiver files.

**AT&L Response: Concur.** Entity waivers would have been appropriate in this situation because the programs were on the original Air Force universe. However, the final report should recognize that they were valued correctly as United States Special Operations Command (SOCOM) assets at the close of FY06 per meetings with SOCOM and the Air Force.

**4) Military Equipment Program Waivers** – The draft report states that based on information in the P&EPO files, the DoD IG was not able to determine whether the P&EPO and the Air Force waivers for 44 of the 82 programs reviewed were properly granted. The files did not provide sufficient supporting documentation. To determine whether the program waivers were appropriate, they contacted Air Force program managers, queried Air Force inventory and equipment systems, and reviewed current budget-item justification reports.

**AT&L Response: Concur.** The final report should recognize that, where possible, the P&EPO collected documentation for the work paper binders, including waiver letters signed by the program office (typically the program manager). However, documentation is ultimately the responsibility of the Component and those requirements were briefed to all program management offices and Component headquarters’ staff on numerous occasions including program in-briefs, program out-briefs, and FY06 update meetings. The need for proper documentation is also covered in various online training courses on the subject of Military Equipment Valuation (MEV) found via the MEV website.

**5) Documentation** – The draft report states that inadequate supporting documentation for the waivers can impact the auditor’s ability to complete the audit in a reasonable time and jeopardize the auditor’s ability to render an audit opinion.

**AT&L Response: Concur.** Our comments for item 4 above apply here also.

**6) Program Changes** – The draft report states that the P&EPO and Air Force granted an “Other” waiver to the Haystack Ultra-high resolution Satellite Imaging Radar because the system was not owned by the Air Force. However, in June 2005 the Massachusetts Institute of Technology transferred ownership of the Haystack radar back to the Air Force so that the Air Force could upgrade the system. The Air Force program office should have, but did not, notify the P&EPO of the change of ownership. Following completion of the upgrade in FY 2010, the Air Force will be the owner and principal user of the radar system. If the program should be classified as military equipment, the Air Force should work with the P&EPO to assign a “Temporary” waiver to the program, capture the costs to upgrade the radar in the Work-in-Process account, and capitalize the equipment when initial operational capability is attained.

**AT&L Response: Concur.** The final report should recognize that the P&E Policy Office has changed the waiver category to “Temporary” with a follow-up date of October 1, 2009. This will trigger the P&E Policy Office to work with the program office to capture the cost of the upgrade prior to completion in FY10.

**7) Program Changes** – The draft report states that the P&EPO did not assign a “Temporary” waiver to the acquisition program for the Remotely Operated Weapon System (ROWS). Instead, the P&EPO retained all program expenditures in the Work-in-Process account. Unreported program changes caused information in the P&EPO files to be inaccurate and the Work-in-Process account balance to be overstated. If ROWS should be classified as military equipment, the Air Force should work with the P&EPO to assign a “Temporary” waiver to the program, capture costs to construct and install the system in the Work-in-Process account, and capitalize the system when assets are fielded.

**AT&L Response: Concur.** The final report should recognize that the P&E Policy Office has removed the values for the legacy Remotely Operated Weapon System (ROWS) program from the Work-In-Process account and has changed the program status to a “Temporary” waiver with a follow-up date of June 30, 2009.

**8) Duplicate Reporting of PP&E** – The draft report states that the P&EPO and the Air Force need to establish controls to ensure that equipment; such as the radar system, ground control stations, and communication equipment; are recorded in AFEMS, SBSS, or CAMS-ME depending on whether the equipment meets the definition of military equipment.

**AT&L Response: Concur.** The final report should recognize that the P&EPO went through an extensive effort in FY06 to work with the program offices and Air Force Equipment Management System (AFEMS) to prevent any duplicate reporting between AFEMS and CAMS-ME. However, this effort was based on information provided by the program offices.

# Department of the Air Force Comments



DEPARTMENT OF THE AIR FORCE  
WASHINGTON DC

OFFICE OF THE ASSISTANT SECRETARY

03 NOV 2008

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDITING  
OFFICE OF THE INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE

FROM: SAF/FMP

SUBJECT: Report on the Internal Controls over the Completeness of the Air Force Military  
Equipment Baseline (Project No. D2007-D000FD-0207.001)

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) to provide Air Force comments on subject report. We concur with the intent of the report's three findings and its recommendations. The attached is provided to respond to the recommendations addressed to the Air Force.

My point of contact is Linda Yansky, 703-697-0292, [Linda.Yansky@pentagon.af.mil](mailto:Linda.Yansky@pentagon.af.mil).

A handwritten signature in black ink, appearing to read "R. Gustafson".

RICHARD P. GUSTAFSON  
Deputy Assistant Secretary  
Financial Operations  
(Financial Management)

**Attachment:**

Response to DoDIG Recommendations

*"Financing the Fight"*

**Air Force Responses to Report on the Internal Controls over the  
Completeness of the Air Force Military Equipment Baseline  
(Project No. D2007-D000FD-0207.001)**

**Recommendation 1:** We recommend that the Assistance Secretary of the Air Force (Financial Management and Comptroller) work with the Property and Equipment Policy Office to:

- a. Include inactive aircraft stored in inviolate storage for potential future use as military equipment in the value of the Air Force military equipment, and
- b. Include the acquisition cost of the RC-135 modification program in the value of Air Force military equipment.

**Air Force Response to Recommendation 1.a.** Concur with the intent. The Air Force concurs that the aircraft stored at the Aerospace Maintenance and Regeneration Group (AMARG) in inviolate storage for potential future military equipment use should continue to be reported in the financial reports. Air Force has already modified its Reliability and Maintainability Information System (REMIS) to accommodate this change. On 1 Oct 2008, the Air Force migrated from the Capital Asset Management System for Military Equipment (CAMS-ME) to REMIS and this requirement will be satisfied in all future Air Force financial statements. This recommendation should be closed.

**Air Force Response to Recommendation 1.b.** Concur. Air Force has added the RC-135 modification program to its list of Air Force weapon systems whose gross book values (aerospace vehicle and/or its modifications) are being reevaluated. Estimated completion date is 30 Sep 2009.

**Recommendation 2:** We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller); with assistance from the Assistant Secretary of the Air Force, Acquisition and the Deputy Chief of Staff Installations and Logistics; obtain documentation from the equipment program managers to support the permanent waivers assigned to the acquisition program.

**Air Force Response to Recommendation 2.** Concur with intent.

Air Force has removed the permanent waivers from the aerospace vehicles on the list. The assets under each of these programs have been reviewed and assigned a gross book value based on actual contract information or historical fact sheets (when all assets in that program are fully depreciated). An aerospace vehicle program is only given a temporary waiver if the assets in that program have a gross book value under the current threshold (currently \$100K). Should that threshold value drop, these exempted programs would be reevaluated.

Air Force has confirmed that the externally attached pods are maintained in RAMPOD and reported as military equipment.

Air Force has confirmed that all munitions are maintained in the Combat Ammunitions System (CAS) and are reported as Operating Material and Supply (OM&S).

The remaining programs are being evaluated one-by-one to determine if they qualify to be an equipment program. If they are a qualified equipment program, Air Force is ensuring the program and its corresponding assets & modifications are properly documented in the appropriate Air Force legacy system. If they are not a qualified equipment program, Air Force is ensuring they are properly recorded in the appropriate OM&S financial feeder system (if applicable) or documented as permanently exempt because it is part of a larger reportable asset. Estimated completion date is 30 Sep 2009.

**Recommendation 3:** We recommend that the Assistant Secretary of the Air Force (Financial Management and Comptroller); with assistance from the Assistant Secretary of the Air Force, Acquisition and the Deputy Chief of Staff Installations and Logistics; identify acquisition programs funded by the Other Procurement, Air Force Appropriation and:

- a. Determine whether the equipment purchased for the program was recorded in both the Capital Asset Management System for Military Equipment (CAMS-ME) and the Air Force Equipment Management System (AFEMS).
- b. Determine whether the equipment should be classified as military equipment or general equipment and report it appropriately.

**Air Force Response to Recommendation 3.a.** Concur with intent. In Jul-Sep 2008, SAF/AQ had each program office with assets reported in CAMS-ME confirm which Air Force system (REMIS, AFEMS, or another system) maintained that program's asset accountability. Based on that information, Air Force was able to confirm that once it transitioned to REMIS, the duplicate reporting would stop. On 1 Oct 2008, the Air Force migrated from CAMS-ME to REMIS so all future financial reports will not have the duplicate reporting. In addition, SAF/FMP provided an adjustment to 30 Sep 08 CAMS-ME result to reflect the dollar values of the duplicate entries that needed to be eliminated. This recommendation should be closed.

**Air Force Response to Recommendation 3.b.** Concur with intent. Air Force is currently implementing an Enterprise Resource Planning (ERP) for its Expeditionary Combat Support System (ECSS). In preparation for this implementation, Air Force has restricted the level of information system upgrades allowed in its legacy system. As a result, each Air Force legacy "financial feeder" system determines the type of equipment reporting – i.e., AFEMS reports general-purpose equipment and REMIS and the Reliability, Availability, Maintainability system for pods (RAMPOD) report military equipment. While this may not be the best split at this time, the difference in these reporting categories is insignificant (see an example of Note 10 below). Under Note 10 for General Plant, Property and Equipment (PP&E) general-purpose equipment values are reported on line 1E while the military equipment values are reported on 1F. Since both lines are on the same page of the financial statement, there is little advantage to changing the coding of an equipment program to the opposite category. This recommendation should be closed.

Air Force General Fund

**Note 10. General PP&E, Net**

| As of December 31                        | Depreciation/Amortization Method | Service Life | 2008              |   | 2007           |                         |
|--|----------------------------------|--------------|-------------------|---|----------------|-------------------------|
|  |                                  |              | Acquisition Value | (Accumulated Depreciation/Amortization) | Net Book Value | Prior FY Net Book Value |
| (Amounts in thousands)                   |                                  |              |                   |   |                |                         |
| <b>1. Major Asset Classes</b>            |                                  |              |                   |   |                |                         |
| A. Land                                  | N/A                              | N/A          | \$ 442,042        | N/A                                     | \$ 442,042     | \$ 441,566              |
| D. Buildings, Structures, and Facilities | S/L                              | 20 Or 40     | 47,900,036        | (27,441,413)                            | 20,458,623     | 10,021,003              |
| C. Landward Improvements                 | S/L                              | lease term   | 0                 | 0                                       | 0              | 0                       |
| D. Software                              | S/L                              | 2-5 Or 10    | 722,971           | (204,779)                               | 518,192        | 489,378                 |
| B. General Equipment                     | S/L                              | 5 or 10      | 33,802,259        | (20,566,674)                            | 13,235,585     | 6,363,404               |
| P. Military Equipment                    | S/L                              | Various      | 248,145,226       | (134,166,209)                           | 113,979,017    | 112,002,700             |
| C. Assets Under Capital Lease            | S/L                              | lease term   | 303,052           | (288,671)                               | 14,381         | 120,263                 |
| F. Construction-in-Progress              | N/A                              | N/A          | 3,607,601         | N/A                                     | 3,607,601      | 3,243,972               |
| I. Other                                 |                                  |              | 337               | 0                                       | 337            | 50                      |
| J. Total General PP&E                    |                                  |              | \$ 333,800,840    | \$ (108,071,020)                        | \$ 225,729,820 | \$ 143,609,146          |

<sup>1</sup> Note 10 for additional information on Capital Leases.  
 S/L - Straight Line N/A - Not Applicable





# Inspector General Department of Defense

